Issue Date: June 21, 2000
Deadline for Questions: July 5, 2000
Closing Date: August 7, 2000
Closing Time: 1600 hours local time

SUBJECT: Support for Private Enterprise Expansion and Development (SPEED)

USAID/Uganda (USAID/U) wishes to issue a task order under one of the following SEGIR Financial Services IQCs for the "design and implement" of a new, aggressive intervention that will address the needs of micro, small, and medium sized enterprises and make systemic changes. This new activity will focus on access to finance and business skills development. The activity will contribute to USAID/U's Strategic Objective One.

- Abt Associates, Inc. Contract No. PCE-I-00-99-00005-00
- Barents Group, LLP Contract No. PCE-I-00-99-00006-00
- Chemonics International, Inc. Contract No. PCE-I-00-99-00007-00
- Development Alternatives, Inc. Contract No. PCE-I-00-99-00009-00
- Deloitte Touche Tohmatsu Contract No. PCE-I-00-99-00008-00
- Financial Markets International, Inc. Contract No. PCE-I-00-99-00010-00

USAID/U will use the procedures described in the contracts at Section F.3.(a)(3) "Fair Opportunity To Be Considered" to determine which one of the foregoing should receive this task order for performance in Uganda. Only one award will be made for both the design and implementation of this activity.

USAID is procuring outputs (results) rather than inputs (level of effort). As such, there is no level of effort specified in the RFP. Offerors are to propose staffing according to the Offeror's approach to achieving the results. At this time, the amount of funds available for the three-year program is uncertain. It may be as low as $6M or as high as $15M (for both design and implement). Thus, cost effective approaches to achieving the results are encouraged and the Contractor will need to design a program that takes into account the different scenarios of program fund availability. All funds are subject to availability.

USAID/U invites your organization to submit a task order proposal in accordance with the attached instructions (Part II). At this time only information as indicated in Part II is being requested from each firm such that USAID may make a selection decision. Once the selection decision is made, USAID/U will request a complete cost proposal with certifications in accordance with the terms of the IQC awards in order to execute the task order.

If you are interested in receiving consideration for award of this task order, you are asked to submit an original and five copies of a proposal to the following address by 4:00p.m. (Uganda time) on July 31, 2000. Proposals may <u>not</u> be faxed or e-mailed.

Ms. Alvera Reichert
Contracting Officer/USAID

Plot 42 Nakasero Road
Kampala, Uganda

This request in no way obligates the U.S. Agency for International Development to award a task order, nor does it commit USAID to pay any cost incurred in the preparation and submission of your proposal. Should you have any questions, you may contact the undersigned.

Sincerely,

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Ms. Alvera Reichert //signed//
Contracting Officer, USAID/Uganda
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Attachment: Statement of Work (Part I) and Request for Proposal (RFP) (Part II).

PART I

A. Statement of Work

Activity: Support for Private Enterprise Expansion and Development (SPEED)

I. Requirements

The design and implementation of the Support for Private Enterprise Expansion and Development (SPEED) Activity.

II. Objective

The objective of this task order is to design and implement a new, aggressive intervention that will address the needs of micro, small, and medium sized enterprises and make systemic changes. This new activity will focus on access to finance and business skills development. The activity will contribute to USAID/Uganda's Strategic Objective One.

We anticipate a ten week design phase and an approximately three-year implementation phase to end o/a January 2004. Because of the length of time allowed for the design phase, USAID/Uganda expects rapid mobilization and implementation.

III. Expected Results

The contractor will design the SPEED Activity and, should the Mission accept the design, implement the activity. Specific outputs that the contractor will be expected to achieve during implementation will be determined during the design of the activity. USAID/Uganda expects the following illustrative results of the activity, which may be modified during design of the activity:

- increased access and effective use of microfinance by changing the current 80% urban/20% rural distribution of clients to 60% urban/40% rural
- increased client base for MFIs from 120,000 to 270,000
- increased number of MFIs that are financially and operationally self sufficient from 0 to 10
- increased access to agriculture and small business finance
- increased numbers of microenterprises, small, and medium sized businesses
- increased income and employment

IV. Problem Statement

Expansion of the Ugandan economy is a function of business expansion, much of which must come initially from rural areas. Currently, the majority of Ugandan business is within the microenterprise sector. In addition, much of the business sector at all levels i.e. micro, small and medium is involved in agriculture in some form. We know that microfinance plays a key role at the household level and at the microenterprise level, especially for women entrepreneurs. The microfinance industry has grown rapidly over the last several years, much of this due to USAID's interventions through the PRESTO Center for Microenterprise Finance (CMF). However, this growth has naturally tended to favor urban clients rather than rural clients because of lower transaction costs in urban and peri-urban areas. Agricultural/rural credit remains a serious constraint and affects all categories of business (micro, small and medium). Likewise, small and medium sized business development in non-agricultural enterprises is also seriously constrained by lack of finance. Finally, business development and expansion is hampered, not only by financial constraints, but also by the lack of adequate business acumen by entrepreneurs, basic business skills, marketing, business planning, and investment choices in productive sectors. Attachments A and B are critical to understanding fully the issues.

V. Background and Context

Expansion of the Ugandan economy is a function of business expansion, much of which must come initially from rural areas. Much of the business sector at all levels i.e. micro, small and medium is involved in agriculture in some form. Women's participation in agriculture is particularly crucial as they provide 70-80 percent of the labor and produce three-quarters of the food. Women also predominate in agriculture-linked microenterprises. While the constraints for agribusiness, microenterprises, and small businesses vary, one of the common constraints is the financial sector. The financial sector in Uganda is recovering from the collapse of three major banks. The Bank of Uganda has increased capital adequacy requirements and banks are becoming more conservative in their lending practices, though this may have been taken to an extreme as most have resorted to investing in Treasury Bills as opposed to the private sector.

The microfinance industry has grown rapidly over the last several years, much of this due to USAID/Uganda's interventions through the CMF and its work with microfinance institutions (MFIs). However, this growth has tended to favor urban clients rather than rural clients. The program has also been particularly effective in reaching women microentrepreneurs and owes a large measure of its success at individual and firm levels to these female clients. Agricultural finance through commercial banks also remains a serious constraint and affects all categories of business (micro, small and medium). Likewise, small and medium size business development in non-agriculture enterprises is also seriously constrained by lack of commercial finance. Finally, business development and expansion is hampered, not only by financial constraints, but also by the lack of adequate business acumen, basic business skills, business planning, and investment choices in productive sectors.

In December 1997, USAID/Uganda published the study “Innovative Approaches to Agribusiness Development in Sub-Saharan Africa”, a five-volume set that covers Kenya, Uganda, Ghana, Mali, Senegal, Zimbabwe, Mozambique, and Tanzania. The objective of the assessments was “to provide the Africa Bureau and Field Missions with an understanding of the role and significance of new, innovative agricultural marketing and agribusiness programs being implemented, and to synthesize a cogent set of lessons learned and their implications for USAID agribusiness project design and implementation.”

One of the recommendations of that report was that for intervention in agribusiness, assistance should be primarily focused on medium sized firms, where true growth potential exists. It also pointed out that small agribusinesses required targeted financial support for expansion or diversification. Self-financing limits their growth because it restricts the amount of working capital available for procurement, operating costs, and export marketing.

Another report that contractors should be familiar with is the recent evaluation of the PRESTO Project. The evaluation provides background on the microfinance industry (including quality of MFIs and the tiers into which they fall) and business development in Uganda. This knowledge will be important to the contractor, as USAID/Uganda requires guidance on where to focus its assistance to MFIs and businesses (e.g. top tier MFIs, second tier MFIs, or both). A copy of the report is available from USAID’s Center for Development Information and Evaluation or from the USAID/Uganda Private Enterprise Officer (Owen Patrick Rader, orader@usaid.gov).

USAID/Uganda has worked with various Ugandan partners in the past and we expect these relationships to continue. In the area of trade policy and investment promotion, we have worked closely with the Private Sector Foundation, an apex association of business associations, and the Uganda Investment Authority, a parastatal promoting foreign and domestic investment. In the area of microfinance, we are working closely with the Uganda Institute of Bankers and a broad range of MFIs. In the past, USAID/Uganda assisted in the establishment of the Capital Market Authority and collaborated with Uganda’s Security and Exchange Commission. More broadly, we work very closely with the Ministry of Finance and have been instrumental in shaping the GOU’s “Medium Term Competitive Strategy for the Private Sector”. These relationships will be important in the design and implementation of this activity.

The above narrative is an abbreviation of Attachments A (USAID/Uganda and Donor Interventions in the Areas of Finance and SME Support) and B (SO1 Strategic Implementation Plan, July 1999), but not a substitute. For a complete understanding of the requirements of this request for proposals, contractors must read Annexes A and B. Because Annex B was produced in

July 1999, some aspects of it are dated. However, it provides an excellent briefing on the SO1 portfolio and will provide contractors with the rationale for this request for proposals and the approach that USAID/Uganda is seeking. Annex A was produced in March 2000 and is complete to the best of our knowledge.

VI. Approach and Design Process

A. Approach

USAID/Uganda and other donors have programs that address some of the issues, but they are not comprehensive (see Attachment A). USAID/Uganda believes that an effective intervention can be formulated that addresses the objectives stated in Section II. USAID/Uganda will achieve identifiable results by targeting a very aggressive 3-year intervention at the following components of SO1's Strategic Implementation Plan:

a. Sound Financial Services Component: These services will build on the CMF experience, but with greater emphasis on moving microfinance into rural areas and "graduating" microenterprises to larger small business finance both in the agricultural sector and the non-agricultural sector. We would expect this component to be more or less similar to the CMF approach, but with a more progressive approach to develop new financial products and to link sustainable MFIs to commercial banking. We would also expect to introduce a new element of financial services that addresses commercial agricultural finance needs and small business finance. This element would work directly with commercial banks and involve financial services beyond the microfinance level.

b. Micro and Small Business Development Component: This component will be a targeted intervention with verifiable results that is linked to the financial services component and the new competitiveness activity. Enterprises at all levels lack basic business planning skills, the basics of financial management and accounting principles, knowledge of loan application procedures, marketing businesses (e.g. a prospectus) to foreign investors or foreign joint ventures, etc. In addition, banks have poorly trained loan officers unfamiliar with the basics of agricultural credit evaluation practices and loan administration. By addressing the skill deficiencies on both sides of the access to finance problem, we will be able to increase the flow of capital to the private sector.

USAID/Uganda will address the **Sound Financial Services and Micro and Small Business Development Components** *as two modules of the same activity* since they are interrelated. The Director of the Bank of Uganda's Bank Supervision Department expressed this interrelationship in his address to the Consultative Group in March 2000. When speaking of the lack of finance for businesses (including agribusiness) he admitted that there was excess liquidity in the banking sector. He explained this phenomenon by stating that the banks were acting properly by not lending money to businesses since they are not receiving "bankable" projects. While the problem is much more complicated than this, he does have a point.

The SPEED Activity will systematically address the lack of finance and lack of business skills in Uganda. The contractor will be expected to read and analyze existing USAID/Uganda documents, meet with Mission management in order to clarify points, meet with other donors and review assessments and studies prepared by them, meet with micro, small and medium size enterprises, and meet with government officials. The contractor will also identify and analyze gender issues and constraints in access to finance and business skills in Uganda.

SPEED will focus on the most viable sectors of the economy, similar to the approach that the IDEA Project has taken. IDEA strives to increase production and marketing of selected non-traditional agricultural exports (NTAEs) such as flowers, where large multiplier and industry-wide impact on income and employment can be achieved. IDEA also provides substantial assistance in the production and marketing of food security crops such as maize and beans, where commercial farming can be achieved in the long term. The IDEA approach places emphasis on criteria and experience for selecting viable clients (i.e. businesses) that have good potential for successful and profitable development.

In addition, SPEED and the upcoming competitiveness activity should complement each other. The overall objective of the competitiveness activity is to enhance the global competitiveness of Ugandan businesses in up to five clusters where large industry-wide impacts on employment and growth can be achieved in the next 5-10 years. By demonstrating the effectiveness of the competitiveness approach in a few industry clusters, it is expected that the government and private sector will use the competitive initiative countrywide to focus the reform process on improving the private sector enabling environment and also assist the private sector investment to make sound long-term choices into productive clusters. The competitiveness activity will begin in July 2000 and will have identified competitive clusters by the time the design team for SPEED begins. Identification of clusters should help the design team focus the finance and business skills development modules.

<u>Finance Module</u>
Objective: To increase access and utilization of financial services in the most productive sectors of the economy using commercial banks, microfinance institutions, and other financial intermediaries that are appropriate and available.

Microfinance: Beginning with the lowest level of finance, the contractor will address access to microfinance. This is perhaps the easiest to address since USAID/Uganda has the most experience at this level. In an April 2000 workshop facilitated by CGAP, donors and the government met to coordinate their efforts and agree upon goals for the microfinance industry in five years.

We agreed that by 2005 approximately 1.3 million clients should be reached by the microfinance industry, compared to 120,000 in 1999. We also agreed that 60% of the industry's clients would be rural and 40% urban whereas the current ratio is 20% and 80% respectively. A copy of the reporting memorandum of that meeting is available from the USAID/Uganda Private Enterprise Officer. These figures will be the overarching goals for the microfinance aspect of the activity and will form the basis of setting targets. The contractor will also analyze access to microfinance by sex as part of the target-setting process.

The donors further agreed that they would be willing to coordinate efforts at the premises of the Uganda Institute of Bankers (UIB) and work closely with the UIB's new Microfinance Competence Center (MCC). GTZ supports the MCC and is providing some support to help commercialize the microfinance industry through a capacity building effort for the MCC. It is important that donors try to support a coordinated effort but there are issues: the UIB is not currently a strong training institute and the MCC is a new, untested Ugandan entity.

For the design of this module, the contractor will examine how USAID/Uganda can participate in this unprecedented, multi-donor effort. USAID/Uganda would also envisage a program that offers similar services as the CMF. CMF provides information dissemination, technical expertise, training, and a grants program. USAID/Uganda envisages selective program grants to MFIs, implemented by the contractor, that have three objectives: foster new product development, expand services to districts where MFIs are reluctant to operate due to the high start up and operation costs, and governance and ownership assistance. The most viable or "top tier" MFIs (12 USAID/Uganda grantees) have indicated that these are areas where they need support. We expect the contractor to execute the grants and administer the grants in consultation with USAID/Uganda. The contractor will also consider the gender implications of proposed new products and processes.

The contractor will assess various issues in the area of training. One of these could be whether training could be provided through a declining subsidy to the MCC for trainers that are able to address the needs of the second tier MFIs or should the contractor provide trainers to the MCC. In designing this module, it will be important to consider the pending legislation for the supervision of MFIs. Contractors can obtain details of the policy and supporting legislation from GTZ/Uganda, the entity charged with assisting the GOU in this area. It will be up to the contractor to explore these issues and provide recommendations as part of the design.

Small and Medium Sized Business Finance: Businesses are defined as agribusiness, including commercially viable farming, and non-agribusiness. As outlined in Attachment A, USAID/Uganda assists in the provision of some credit facilities to agribusiness, primarily through the PL480 program. Other donors are intervening in this area, but the interventions are primarily focused on small holders. Danida is a prime example with its assistance to the newly established bank, Commercial Microfinance Limited.

The design of the agribusiness portion of the Finance Module will focus on how to provide equity and debt financing to agribusinesses. This could take the form of guaranteeing loans provided by banks or other programs such as the USAID Loan Portfolio Guarantee and Development Credit Authority or OPIC, and the Africa Project Development Facility (APDF), as they may apply to the Uganda context. Funds provided for this activity may not be lended, but they may be used to provide guarantees in the absence of other, preferable alternatives. The contractor will bear in mind the pivotal roles of women in Ugandan agriculture and propose approaches that will address the needs of women in agriculture and agriculture-linked enterprises and ensure that the program reaches them.

The activity will be primarily devoted to working through commercial banks in order to institutionalize viable products, decrease bank transaction costs, and minimize risks in order to induce lending. We believe that working through commercial banks is a legitimate intervention due to our experience with the PL480 program and other ongoing implementing partners. The PL480 program's finance activities (Special Loan Window, Agriculture Loan Officer Grants, and Stockist and Wholesaler Guarantee) have had notable success and it is logical to examine if these are approaches upon which USAID/Uganda can expand. The technical assistance needs of banks and agribusiness will be addressed.

Although various sector analyses and surveys highlight the issue of debt and equity financing for small and medium size businesses, this is an area that receives little direct assistance from USAID/Uganda and other donors. Our most active partners in this area are the Development Finance Company of Uganda, the IFC, and the APDF. As part of the design for this module, the contractor will work through commercial banks in order to develop commercially viable interventions to induce banks to lend to this segment of Uganda's economy by reducing risks to banks and developing products with lower transaction costs. Technical assistance for loan officers and project preparation for business will be addressed in the Micro and Small Business Development Module of this activity.

<u>Micro and Small Business Development Module</u>
Objective: To provide targeted technical assistance and training to micro and small businesses (including agribusinesses), associations, MFIs, and banks. These services will complement and increase the effectiveness of the Finance Module and enhance USAID/Uganda's upcoming competitiveness activity.

The design of this module will focus on providing technical assistance and training to micro and small businesses, including agribusinesses. Linkages with the IDEA Project are important in addressing the needs of agribusiness. The **technical assistance** portion of the module should use a combination of expatriates and local consulting firms. Where local consulting firms lack technical capacity to assist micro and small businesses, the contractor implementing the activity could build into the design a technical assistance program to further develop their capacity to service them. The provision of technical assistance and training should in no way undermine local firms; rather, it should enhance local capacity where possible.

The contractor may provide technical assistance in a number of areas, as stated above. In conjunction with working with banks on developing financial products that meet the needs of this neglected sector, this module could work with loan officers and managers in banks to develop their skills in conducting credit analysis and loan tracking. During the design of this activity, the contractor will identify other areas where a combination of technical assistance and training is necessary to ensure the successful implementation of the Finance Module.

The contractor will provide **training** through a demand-side mechanism, though supply side training may be proposed, as appropriate. It will be important to weigh the trade off between local capacity development and achievement of activity objectives. The demand-side mechanism could be a voucher program or a direct grants program where the customer is able to choose from pre-selected service providers. In the case of MFIs, USAID/Uganda has subsidized training on the supply side through the CMF. While this has been highly successful, the 12 MFIs that have the greatest chance of becoming operationally and financially self-sufficient have graduated to needs other than the basics of best practices. FINCA, for example, used the CMF for only 25% of their training needs during the past year. FINCA purchased training in accounting, human resources management, and other topics relevant for growing their business from a handful of local providers. USAID/Uganda will neglect the needs of the most viable MFIs if it continues to focus its institutional capacity development on the supply side. The design of this module will incorporate these lessons learned.

In discussing training needs with MFIs, USAID/Uganda discovered that there was a desire on their part to increase the business sophistication of their clients, microentrepreneurs. Many MFIs have recommended that USAID/Uganda provide business training for their most successful clients. USAID/Uganda believes that this is an important intervention if focused on MFI clients that have the best opportunities to grow into small businesses and hire more people (i.e. increasing household income). Of those, the special needs of women entrepreneurs are a consideration in the design of this element.

In the context of identifying where USAID/Uganda should focus the Financial Services Module, the contractor should conduct a complete assessment of the training needs of those businesses and MFIs, and prioritize the businesses and MFIs that should be assisted on the basis of their potential contribution to economic growth. This assessment will provide the parameters for establishing a training program, and the criteria by which firms/MFIs can participate, ensuring the equitable participation of women owned and operated firms. As stated above, this module will complement USAID/Uganda’s upcoming competitiveness activity. The clusters selected under that activity should be given strong consideration under both the Finance Module and the Micro and Small Business Development Module.

B. Design Process

Through the above section and the attachments to this document, USAID/Uganda has provided the contractors with background on the issues that it will face in designing this activity and indicated where more exploration is required. The design phase will be broken into two parts: an assessment and the actual design. The assessment will include options and recommendations for USAID/Uganda on the design of the activity, including relative emphasis of the activity. The contractor will fully justify the recommendations.

After the assessment and presentation of recommendations to USAID/Uganda, USAID/Uganda will consider the recommendations and provide the contractor with written guidance on the design. After the assessment, the contractor will take the written guidance provided by USAID/Uganda and design a program that conforms to its guidance.

Microfinance: There is clearly a strong need to expand microfinance, particularly in rural areas. This need reflects a high GOU/donor priority to address "poverty reduction" according to the GOU's Poverty Eradication Action Plan. In this context, considerable pressure by the GOU will be place on expanding the numbers of MFIs to be supported, many of which may not be able to use best practices. At the same time, donors, including USAID/Uganda place high emphasis on creating and working with sustainable MFIs. Currently, only a few MFIs are close to operational and financial self-sufficiency. Moreover, focussing on only those MFIs that employ best practices may be seen as not meeting the demands to increase rural microfinance services through the universe of MFIs. Thus, the following questions need to be addressed:

1. What is the status of the microfinance industry in Uganda? What are its greatest needs?
2. What criteria should USAID/Uganda apply in supporting MFIs in Uganda?
3. What is the best way to provide microfinance and outreach to rural areas, through large MFIs that employ best practices? Through MFIs already existing in rural areas? Other ways? How can we continue to promote women's access?
4. Among the clients of MFIs, what percentage has a real possibility to develop into small businesses and employ more people?
5. What type of technical assistance should USAID/Uganda provide to microenterprises and MFIs? What other types of assistance should be considered?
6. What linkages can be developed between MFIs and the formal banking sector?
7. What are the significant differences between male and female-owned microenterprises, and what are the implications of these differences for microfinance?

In addition, there is a strong rationale for attempting to encourage MFIs to diversify the financial products for agriculture, both for farming and other needs. Many MFIs, and even the USAID Global Bureau's Microfinance Office, have been fairly strict in terms of how and for what use MFI loans can be applied.

1. Are there ways to encourage MFIs to develop new financial products that meet the needs in Uganda rural sector, and in particular women farmers?
2. Will USAID policy represent any constraints to our efforts in this regard?

Currently, donors are interested and hopeful that a donor coordinated effort can be developed at the Uganda Institute of Banker's Microfinance Competence Center (MCC). This has the advantage of providing better donor coordination, and also provides a means to "Ugandanize" microfinance expertise and guidance to the industry in the future when donors are no longer present in this sector. Traditionally, the UIB has been weak, and it is not yet clear that MCC embodies the full vision for moving the microfinance industry forward. USAID/Uganda's primary objective, as noted in Section III, is to reach more clients and create sustainable MFIs. Thus, for USAID, the MCC is a means to the end.

1. What linkages should USAID/Uganda's assistance in the area of microfinance have with other donor programs?
2. How much effort should USAID dedicate to the institutional development of the MCC?
3. What are the appropriate models for assisting MCC and also achieving the end results?
4. As donors phase out of this sector, will MFIs be able to access commercial finance to expand their operations? Should USAID assist in this area?

Commercial Finance: The universe of agribusinesses and small businesses is currently limited and only a couple of banks seem to be interested in this area. Our experience with the PL480 program shows some promising possibilities. However, we will not capitalize banks with PL 480 funds or other funds, nor will USAID provide funds for lending.

1. Can sufficient demand from the business sector be generated to justify the development of new financial products by banks?
2. What are the real possibilities for working with debt and equity finance institutions that will work in Uganda?
3. Would the interventions of this project have a high probability to make a significant difference over the three-year period? Would they be accessible to women entrepreneurs?
4. How can we best use PL480 funds given that such funds cannot be used for capitalizing banks? What are the relative needs between short-term financing and long term financing for enterprises?
5. What is the most appropriate use for USAID/Uganda guarantee programs (dollar and local currency) and other mechanisms to increase access to private capital? If USAID/Uganda is to assist in the growing of Uganda's

economy through interventions in finance, where should it focus its resources? Small holders? Small and medium sized farms? Small and medium non-farm businesses?
6. How can USAID/Uganda best link this new activity with the PL480 program? Other USAID/Uganda programs? Other donor programs? GOU programs?
7. What recommendations can be made to the PL480 program for linkages and use of local currency in this sector?
8. Does the UIB represent a viable institution and focal point for working with commercial banks?

Business skills: Banks, foreign investors, and joint venture partners often cite lack of business skills as a major impediment to doing business in Uganda. At the same time, there are local businesses that provide some of the training and technical assistance that these businesses require. In one sense, this issue is systemic and will only be resolved in the long-term. However, we know that there are interventions that USAID can make to assist in the medium term (i.e., three years).

1. What are the most important business skills problems? Are there any differences by gender? Can they be addressed in the medium term?
2. What kind of training and technical assistance can local entities provide? How can USAID assist businesses access local training and technical assistance?
3. What should the objectives of a training program be other than helping enterprises access finance?
4. How can we best link this training and technical assistance with the new competitiveness activity?
5. Is the Private Sector Foundation a logical focal point for providing these services? What other local entities are appropriate?

<u>Broad Spectrum Questions</u>

1. Currently USAID/Uganda defines microenterprises as employing five or fewer people, small businesses as employing 6 to 50 people, and medium sized businesses as employing 51 to 200. Are these appropriate definitions for Uganda?
2. Should the activity have a geographic focus? If so, should the focus be the same for microfinance and small business? Why?

VII. Tasks and Deliverables

Phase I – Design

Assessment Part:
1. Assessment must include:
a. Answering all questions in Section VI.B. Design Process.
b. Reviewing the SO1 portfolio and meeting with each appropriate SO1 partner.

c. Meeting with donors and individuals important for designing the activity.
d. Establishing a schedule for meeting local businessmen, farmers, training providers, MFIs, and others. This schedule will include visits to districts other than Kampala.
e. Conducting a market assessment of the microfinance industry to be included as an attachment to the design document
f. Evaluating the UIB and others as a potential counterpart(s) for implementation.
g. Meeting with USAID/Uganda, present findings of the assessment, options, recommendations (including relative emphasis of the activity), and rationale for them.

2. Design phase must include the following:
a. Conducting a training needs assessment for targeted business sectors/clusters to be included as part of the design.
b. Establishing a design committee to include members from the private sector and other interested parties to participate in the design of the activity. The composition of the committee and manner in which it participates in the design should be presented by the Contractor to USAID for review and concurrence. The USAID CTO will be responsible for establishing USAID's design review committee.

During Phase I-Design (Parts I and II) the contractor shall provide the following **deliverables:**

a. An initial assessment that includes options, recommendations, and rationale for the design of the activity. This should include relative emphasis of activity resources.
b. A strategy to promote the expansion of access to financial services that fully integrates a technical support and training program and addresses expected results in Section III or proposed alternatives. This strategy should include recommendations for using PL480 local currency funds and incorporate aspects of the competitiveness activity that will begin in August 2000.
c. A Results Package Document for the SPEED Activity with clearly defined objectives, activities, indicators, and results desired for each module over the implementation period. This will include suggested revisions to SO1's IR1.3 and 1.4 indicators, including targets and aggressive timeframes for achieving them.
d. A market assessment of the microfinance industry and a training needs assessment of targeted business sectors.
e. A design document that clearly outlines the rationale for interventions under each module, level of effort, human and financial resources required, baseline data and benchmarks for measuring the impact of the activity and the contractor's progress over the implementation period.
f. A draft of the first annual workplan.

Based on USAID/Uganda's review of the contractor's design of the activity, its proposed implementation plan and team, USAID/Uganda will make a decision whether to proceed with the Contractor for implementation. If USAID/Uganda accepts the design, the contracting officer will modify the task order to include Phase II-implementation. At that time the Contracting Officer will request all documents necessary to execute the "implementation phase" with the contractor.

USAID/Uganda reserves the right to abandon the design and make other implementation arrangements.

Phase II – Implementation

a. Specific tasks and deliverables for Phase II will be determined during the design phase. The SOW will be included in the modified task order for implementation. Annual workplans describing specific outputs will be approved by the Mission's Private Enterprise Officer.

The following list is illustrative:

b. After one year, mechanisms should be operating with commercial banks that facilitate the flow of their excess liquidity to small and medium sized businesses.
c. After one year, the contractor will have developed new products that allow MFIs to offer financial services to rural areas.
d. After one year, micro, small and medium sized businesses should be using financial services, technical assistance, and training established by the contractor.

VIII. Resources and Level of Effort

The team of professionals carrying out the design and implementation should have experience in banking, rural finance, microfinance, agribusiness, small and medium enterprise development, and in the design and management of credit programs.

Timing

The design team should plan to begin work in Uganda in September 2000. Implementation of the activity will begin no later than February 1, 2001. A notional schedule is below:

September 2000	USAID/Uganda awards task order
September	Design team arrives in Uganda
December	Draft design complete
December	If decision made to implement, USAID/Uganda proceeds with modification of Task Order for Implementation.
February 2001	Implementation begins

PART II-PROPOSAL PREPARATION

IX. Proposal Preparation

To assist offerors in preparation of their proposals, USAID will answer all questions about this document as follows:

<u>Questions Related to the RFP</u>
All questions should be submitted to USAID/Uganda by no later than July 5, 2000. They may be submitted via e-mail to Jackie Wakhweya (jwakhweya@usaid.gov). USAID/Uganda will answer the questions and send all contractors the questions and answers via e-mail by July 14.

Submission of Proposal

In addition to the information set forth in the cover letter for proposal submission, the contractors shall use the following guidance.

Excluding corporate capabilities, essential personnel resumes, annexes, and budget, proposals must not be longer than fifteen pages of text.

The proposals must include the following:

TECHNICAL

- discussion of the following:

    1. What linkages should USAID/Uganda's assistance in the area of microfinance have with other donor programs?

    2. How can we best use PL480 funds given that such funds cannot be used for capitalizing banks? What are the relative needs between short-term financing and long term financing for enterprises? Differences by gender? Can they be addressed in the medium term?

    3. What should the objectives of a training program be other than helping enterprises access finance?

    4. Currently USAID/Uganda defines microenterprises as employing five or fewer people, small businesses as employing 6 to 50 people, and medium sized businesses as employing 51 to 200. Are these appropriate definitions for Uganda?

- proposed or illustrative benchmarks and indicators for use to measure progress against the expected results of Phase I and Phase II
- a detailed design schedule that takes note of Section VIII, **Timing,** the contractor is free to propose an alternative schedule for consideration and should include specific dates.
- a notional plan for the first year of Phase II

STAFF

- resumes and relevant work experience for the proposed team leader and key staff for Phase I and resumes of available candidates for Phase II. The final composition of the team required to implement Phase II of the activity will be determined during Phase I. USAID/Uganda will give preference to experience acquired in countries with similar conditions to Uganda.

- a chart in an annex, listing the key personnel proposed for all contracts awarded during the last three years. The chart must include the following: personnel proposed and expected duration of position; key personnel actually performing under the contract and the duration of the actual assignment; and replacement key personnel, if any, and the reason for the replacement. A record over the last two years is required.

PAST PERFORMANCE/EXPERIENCE

- corporate experience and demonstrated effectiveness in facilitating access to finance for micro, small and medium enterprises, especially in rural settings

- demonstration that the contractor has fully considered the lessons learned from relevant experience with similar activities in other countries, and that it has taken into account how these lessons can be applied to Uganda's situation

COST

- a notional budget for Phase I and II with sufficient detail for USAID to determine cost realism and cost efficiency for the design and implement package

X. Evaluation Factors

TECHNICAL	Is the proposal thorough in describing the design process, does it demonstrate knowledge of the issues through answering the questions posed, and are the proposed benchmark and indicators ambitious and achievable? (16 points) Does the design have sufficient outreach into the rural areas and does it demonstrate consideration of lessons learned from similar activities in other countries and how those lessons can be applied to Uganda? (8 points) How realistic/thorough is the design schedule and does it include a detailed plan for an MFI market assessment and a training needs assessment? (8 points) Is the notional work plan for Phase II ambitious and achievable and how well are gender issues taken into consideration? (8 points)	40
STAFF	Does the proposed staff for Phase I have experience in designing similar activities? Does the proposed staff pool for Phase II have appropriate experience on similar and successful activities? How has the contractor performed with regard to proposing individuals and staffing contracts?	20
PAST PERFORMANCE/ EXPERIENCE	How has the contractor performed on similar design and/or implement activities? What were the results of these activities?	35
COST	Is the budget realistic? Does the contractor make efficient use of funds for designing and implementing the activity?	5

Attachment A: USAID/Uganda and Donor Interventions in the Areas of Finance and SME Support

SO1's Strategic Implementation Plan (SIP), included as Attachment B, has five components that contribute to the economic development of Uganda. They are:

1. Agricultural Commercialization
2. Dairy Development
3. Sound Financial Services
4. Micro and Small Business Development
5. Policy Reform for Private Sector Growth

Components 3 “Sound Financial Services” and four “Micro and Small Business Development” are addressed herein.

I. Sound Financial Services

Concerning “Sound Financial Services”, the issues defined in the SIP are to decide i) what form USAID/Uganda assistance to MFIs should take. ii) how to assist in the provision of credit to agribusiness, and iii) how to assist in the provision of credit to small- and medium-sized enterprises.

A. Current SO1 Portfolio

Microfinance: In the area of microfinance, USAID/Uganda has been supporting the development of the microfinance industry in Uganda since 1995. The PRESTO project has been the focal point of this effort, and ends in February 2001. PRESTO's primary intervention in support of the microfinance industry has been the Center for Microenterprise Finance (CMF). PRESTO created the CMF to strengthen and increase the outreach of Ugandan microfinance organizations (MFIs) through a combination of technical assistance, training and financial support. The capacity building effort combines training and technical assistance. It is open to all MFIs interested in learning about and adopting best practice techniques to improve their operating efficiency, service quality, and ability to become financially sustainable. The CMF’s grant program is more selective, and it provides grant financing for equipment, operating support and loan funds to MFIs that can meet strict eligibility criteria.

Thus far, the CMF has provided training and technical assistance to 55-60 microfinance organizations, most of which are small NGOs. However, in the past year about 20 MFIs have consistently attended the courses offered. Of those, the CMF has focused on the 11 financial institutions with credible plans to reach sustainability. It is not an accident that these 11 received grants from the program. Through the grant program, the CMF completed institutional appraisals and approved grants totaling $6,515,469 to a total of 13 MFIs, including 2 banks (Centenary Bank and Coop Bank), 1 non-bank investment company (Development Finance Company of Uganda), and 10 NGOs.

Agricultural Credit: Besides microentrepreneurs that happen to be farmers participating in the microfinance provided by the MFIs included in the PRESTO project, SO1 has provided agricultural credit through three programs that were implemented on a pilot basis. They have shown results that lead us to believe that complementary programs should be developed.

There are three finance activities funded by local currency generated from the PL-480 program:

Special Loan Window: This mechanism is used as a guarantee for agricultural borrowers that lack sufficient collateral, but qualify in all other aspects for a commercial agriculture loan. All borrowers under this program have been either IDEA Project or PL-480 Program beneficiaries. Each potential borrower has worked with and received technical assistance from either PL-480 or IDEA. One of the programs must recommend the loan applicant, but the decision to make a loan lies totally within the bank.

The Program provides each bank with increments of 180,000,000 USH in a joint Bank/PL-480 account. This account is utilized only after a loan has been defaulted on and all available collateral collected. This "window" has been operational for several seasons.

Centenary Bank:

- Guarantee not to exceed 20,000,000 USH per borrower
- 360,000,000 USH disbursed to date
- 26 loans to date (avg. size 4,000,000USH) and one group loan of 60,000,000USH

Standard Chartered Bank:

- Guarantee not to exceed 40,000,000 USH per borrower
- 180,000,000 USH disbursed to date
- 0 loans to date (MOU signed too late for this season)

Agriculture Loan Officer Grants: This new program take the form of grants to both banks to help them make better decisions on loans in the agricultural sector and to allow them to better follow up/monitor the loans. The grants provide salary support, facilitation, and training for "Agriculture Loan Officers". Initially, the Agriculture Loan Officers will travel with the IDEA Project to learn how to assess an agricultural loan request and then to follow up on the loan after disbursement. The banks will assume full cost of the program after two years.

Standard Chartered Bank's grant is for 171,000,000 USH
Centenary Bank's grant is for USH 570,000,000 USH

Stockist and Wholesaler Guarantees: This is a grant to the IDEA Project and provides a guarantee on the supply of inputs from the distributors to the stockists and from the wholesalers to the distributors. It provides a guarantee of 70% of the value of the inputs. This has been operating for four seasons and has had zero defaults.

Stockist and Wholesaler Guarantee Grant value is 370,200,000 USH

Export Finance Guarantee Facility: The program, due to become operational in January 2001, will work with commercial banks to provide short-term finance to exporters, primarily in the NTAE sector, to stimulate greater exports. The program will work in partnership with the IDEA NTAE clients. The export finance program will operate as a guarantee, with regulated banking procedures governed by the BOU. If successful, the fund can operate indefinitely without further capitalization.

BOU Training: Beginning in April, USAID/Uganda began providing training for the 20 new staff members of the Bank Supervision Department of the BOU. Consequently, the BOU should be better able to exercise its supervision responsibilities.

B. What Other Donors Are Doing

It is widely recognized that USAID/Uganda has led the effort in **microfinance** in Uganda. Whereas in 1995 no donors were working in this area, USAID/Uganda has shown that microfinance does work in Uganda and now most donors are implementing or have begun to implement their own programs to bring the industry further along. The other primary donors in this area are GTZ, Danida, and the EU.

Through its Financial Services Development Program, GTZ is perhaps the quickest of all donors in following USAID/Uganda's lead. GTZ is providing technical assistance to the Uganda Institute of Bankers (UIB) in its effort to create a Microfinance Competence Center (MCC) within the Institute that will provide training, technical assistance, and information services on a cost covering basis with the aim of becoming self-sustainable in three years. Training is being targeted for current needs of the 11 surviving MFIs (including Centenary, a commercial bank) that received grants under the CMF, though, if there is demand, basic training for second and third tier MFIs will be provided.

With the assistance of GTZ, UIB has developed an overall business plan in addition to a business plan for the MCC. The UIB will provide office space for the MCC and funding for a Ugandan Program Manager and three trainers. Over its two-year program, GTZ will contribute a long-term advisor, fourteen months of technical assistance for curricula development and training, and financial support for additional trainers. GTZ has also been actively working with the Bank of Uganda on developing the new policy and law regulating the industry. The GTZ program has the support of the BOU and several donors.

Danida plans to work with UIB by providing equipment for the MCC and a fund that can be accessed for sending Ugandans abroad for longer-term training. Danida will also provide funds for agricultural credit (see below for details). The EU's Suffice Program plans to cooperate with the UIB by co-locating with the MCC and provide access to wholesale credit to MFIs. The Suffice Program will manage the provision of credit until such time that they can be transferred to formal financial institutions allowing for commercial linkages between MFIs and the formal banking sectors. Most of the Programs support will be focused on building capacity through the provision of declining matching grants to MFIs seeking training services from selected suppliers.

UIB invited donors to a meeting on March 15 to present the MCC business plan. While there were suggestions for improvement, the overall reception by the donors was positive though there is concern that the MCC does not have any experience in providing assistance to MFIs. The UIB is revising the business plan based on donor input. The UIB intends to have the MCC operating by July 2000.

Worth mentioning, purely for its potential impact on the sector, is the Rural Microfinance Support Project, commonly known as PAPII. With a loan provided by the African Development Bank, the GOU will channel $20 million to MFIs through a soon to be established company limited by guarantee. Approximately $17 million will be used for wholesale lending to 80 MFIs and $3 million will be used to train the MFIs with which the company will work. The program is targeted for all districts of Uganda and is focused on the smaller MFIs in more remote regions with which USAID/Uganda's CMF has not worked.

Of all the donors, Danida has planned the most extensive program for **agricultural credit** in their Rural Financial Services Component (RFSC). The RFSC specifically targets “poor, but financially active people”. Besides working with the Uganda Institute of Bankers to assist MFIs, their largest contribution will be expanding the newly licensed bank Commercial Microfinance Limited (CML). CML will take over the six Agencies that were providing microfinance under the aegis of the Cooperative Bank. CML will also establish 22 branches in Masaka, Kabarole, Budibugyo, Rakai, Tororo, Pallisa, Moyo, and Adjumani. The RFSC is planned at $5 million.

Almost half of DFCU's portfolio involves loans and or equity positions with agribusinesses but their program is not extensive. DFCU has informed SO1 that their agribusiness portfolio is its best performing. Unfortunately, no donor is planning to address the needs of these larger farms and agribusinesses that have trouble accessing finance, technical assistance, and training to grow their businesses.

In April 2000, the major actors in this area (USAID, Danida, GTZ, EU, DFID, and the Africa Development Bank represented by the Regional Microfinance Support Project) held a workshop facilitated by CGAP and agreed on a common vision for support to microenterprises for the next five years. We agreed that by 2005 approximately 1.3 million clients should be reached by the microfinance industry, compared to 120,000 in 1999. We also agreed that

60% of their clients would be rural and 40% urban whereas the current ratio is 20% and 80% respectively.

Micro, small, and medium sized businesses suffer from the same problems as the agribusinesses (i.e. limited or no access to finance, technical assistance, or training). The GOU's "Medium-term Competitiveness Strategy for the Private Sector" highlights this fact. The primary donors working in this area are DFID, World Bank, and UNDP. Their programs are functioning reasonably well, but the are not comprehensive nor do they meet existing demand in the area of access to finance. Most of the programs that address access to finance focus on non-farm microenterprises since this does not require working through the commercial banks. It is easier to work with donor driven MFIs with a mandate to provide microfinance than with banks that, with the exception of Centenary, do not offer a microfinance product. In addition, a commercial bank's mandate is to make money and they have been able to do this through investment in T-bills rather than providing loans to businesses where the transaction costs are much higher.

II. Micro and Small Business Development

Increasing business skills and creating a competitive workforce, regardless of a sector-specific focus, will help to expand business opportunities and create the engine required for driving broad-based economic growth.

A. Current SO1 Portfolio

Since the completion of the Business Association Investment (BAI) and the Policy and Regulatory Reform components of the PRESTO Project, SO1's assistance has been limited to ad hoc targets of opportunity through grants. While we are supporting the UIA and PSF to address policy constraints, we are not providing direct support to business people. In the near future, SO1 will initiate a Competitiveness and Trade Activity that will work with businesses to identify needs and provide limited technical assistance. However, this activity will be limited to five or less industry clusters.

B. What Other Donors are Doing

The World Bank is engaged in a number of different areas that have relevance for the private sector. Most of this is directed to the macro level. Its most targeted program, which ends this year, is the Private Sector Competitiveness Project (PSCP). It has three components: policy advocacy through the PSF, matching grants to businesses through the Business Uganda Development Scheme (BUDS), support to the UIA for investment promotion. BUDS is the only component that directly supports businesses.

The UNDP's main instrument for assisting the private sector is the Private Sector Development Program (PSDP). There are a number of different components, but the only one that directly assists businesses is the District Private Sector Promotion Centers that provide training and in other ways assist local entrepreneurs. The consensus is that the program is not operating well. They also work through the Uganda Manufacturers Association to provide training and apprenticeship programs.

DFID's British Partnership for Enterprise Development Program (BPED) primary direct assistance to businesses is through training in agri-processing in conjunction with their support to DFCU. The major thrust of the program is support for deregulation and the legal commercial sector.

Other donors such as Austria and the EU are minor players in this area. As mentioned above, Danida has an active private sector program that concentrates on the enterprise level. It focuses mainly on different forms of cooperation between Ugandan and Danish firms. Over 35 agreements of different nature have so far been initiated. Denmark is one of the leading donors on governance and ant-corruption work.

Attachment B: SO1 Strategic Implementation Plan, July 1999

I. Background and Purpose of the Strategic Implementation Plan:

USAID/Uganda created the SO1 office in early 1997 according to the precepts of USAID reengineering. Before the formation of SO1, the Mission had a separate Agriculture office and a General Development office. A number of projects from these separate offices were placed into the SO1 portfolio based primarily on their orientation, and in some cases rather vague orientation, towards economic growth and/or humanitarian assistance (emergency programs and temporary relief activities). Some of the projects fit the new SO1 framework well, while others did not. In early 1998, the SO1 team began an exercise to rationalize and consolidate the portfolio priorities, reduce management units and eliminate activities that were marginal in terms of meeting the objectives of the SO1 framework. As this work proceeded, it became apparent that the Mission had executed a large number of grants in prior years, some of which had little, if any, strategic focus. Many of the activities were small grants for a multitude of special interests. Even with the larger projects such as IDEA and PRESTO, separate mission managed grant elements were built into these projects. The Title III local currency funds were used to provide literally hundreds of small disparate grants to various Ugandan entities but which had no overall strategic focus. Funds outside the IDEA, PRESTO, and ANNEPP institutional contracts, for the most part, were designed to provide complementary program activities. Nevertheless, these grants also added to the management burden on the Mission regarding grant management requirements.

For the last year, the SO1 team has worked to rationalize and focus the portfolio. As we have consolidated activities and, at the same time, examined the priorities for economic growth, five basic Components have emerged. These Components are:

1. Agricultural Commercialization
    a. Food Crops
    b. Non-Traditional Agricultural Exports (NTAE)
2. Dairy Development
3. Sound Financial Services
4. Micro and Small Business Development
5. Policy Reform for Private Sector Growth

Considerable consolidation has taken place particularly with respect to the agricultural side of the portfolio (Components 1-2). Final consolidation and focussing of Components 3-5 needs to be linked to defining the longer-term strategic direction in the areas of financial sector development, small business development and expansion, and second-tier policy reform, which is further discussed below. Annex 1 lists the various projects and grant activities, and describes how we have consolidated and focussed activities up to the present time.

Mission management has already decided that the Strategic Objective framework (SOAG) for SO1 needs to be updated and revised. This will be done during September/October, 2000. As we initiate the revision of the SOAG, it will be important to consider this Strategic Plan and the Components as the basic building blocks for the SOAG. The SOAG should reflect these Components, rather than projects, as the primary priorities. For the most part, the Components as presented in this Strategic Plan are already reflected in the R4. However, there are some deficiencies. For example, we have formal R4 indicators for Components 1,2, and 3, but not for Components 4 and 5.

There is a two-fold purpose for preparing the Strategic Plan. First, it provides a reference point that will help guide the SO1 team and its partners in the future. Second, it provides a reference point for the SO1 team to further refine the priorities, streamline and focus the portfolio. The plan should also be used in revising the SOAG and should also help developing the new CSP. The Plan attempts to capture relevant information from a variety of sources, including project reports, evaluations, and special studies on topical issues. The Plan is a first attempt at pulling together an enormous amount of information and experience into one comprehensive document. Rationale is provided for strategic "Components", along with how various projects/activities contribute to meeting the Component objectives. Some activities are considered "core" and some are considered "supporting" in terms of their contribution to the Components. The Plan is focussed on strategic interventions over the next five-year timeframe. The discussion also points out areas where additional attention needs to be given regarding strategic choices, and to indicate where design work is needed in order to set new instruments in place. This is especially relevant for Components 3-5. Given the dynamics of the portfolio, SO1 will update this Strategic Plan every six months.

II. Uganda's economic growth problem and prospects for growth:

Uganda's economy is based primarily on agriculture and/or agricultural related enterprises. Nearly 90% of the population are rural based and derive their incomes from the agricultural sector, many of whom are subsistence farmers. Thus, economic growth is, and will be, heavily dependent on increasing agricultural productivity in the short and medium timeframe i.e. the next ten years. As in other countries, agriculture in Uganda must be transformed from its current dependence on subsistence farming to a commercial orientation that provides the engine for broad economic growth with large multiplier effects. Over time, this transformation will lead to greater opportunities for off-farm employment, and the creation of new supporting service sectors, and other new industries. While there is a strong rationale for Uganda to create new non-agriculture sectors more rapidly, economic theory and development experience show that the evolution and diversification of economies such as Uganda are strongly linked to how well the "agricultural transformation" process occurs. Broad diversification into non-agricultural sectors, at least on a large-scale, will take time and require considerable private investment. Thus, agriculture is the primary engine available to the population for achieving significant economic growth, during the five-year timeframe for this Plan.

Making agriculture a profitable enterprise means creating an educated and skilled workforce that provides the human capital for making the commercial agriculture engine work efficiently, and that will also stimulate enterprise development for future diversification into non-agriculture sectors. Thus, the strategy for making agriculture profitable must recognize that a dynamic transformation in the sector will need to occur over time. Farmers, traders, exporters, and enterprises will need to become commercially oriented and competitive. There will be winners and losers in the process. Many people who are now involved in subsistence agriculture will need to find new opportunities in new sectors, resulting in greater productivity in all sectors. Ugandans will need to be able to adjust to external market signals and determine where and how to invest in commercial and competitive enterprises. Not easy, but there is no other choice.

Currently, Uganda's agriculture sector is one of the least productive of any country in Africa. Because of civil strife during the Idi Amin and Obote years, Uganda completely missed out on the tremendous advances that other countries experienced during the "green revolution". New technologies such as hybrid seeds, modern inputs, and mechanization have yet to reach a significant number of Ugandan farmers and entrepreneurs. Modern business culture, efficient markets, and policies conducive for private sector development are not yet in place in Uganda. Public institutions are weak and lack both skilled technocrats and financial resources.

Agricultural Modernization was highlighted at the December 1998 Consultative Group meetings in Uganda as a high priority. However, it has been extremely difficult for the Ministry of Agriculture, Animal Industries, and Fisheries (MAAIF) to develop and articulate a clear strategy for modernizing the sector. While progress has been made, much remains to be done to specify priority investments in the sector. The main change over the last year in the Agriculture Modernization Plan has been that MAAIF now recognizes that agriculture is essentially a private sector enterprise and that the government role is to create the enabling environment. The next steps are to define the subsector elements and set priorities. For example, more clarity is needed to make agricultural research and extension relevant without assuming that these are exclusive public sector functions; developing a strong private sector response for fertilizer and input supply systems is needed; promoting internal market efficiencies is essential to bring down transaction costs; and developing the enabling environment for export expansion must be a priority.

With the opening of the economy under President Museveni's leadership, liberalization has created an enormous challenge to Ugandans in the public and private sectors, especially with respect to defining a vision with priorities for creating a sound policy and regulatory environment that promotes private sector development. While the macroeconomic framework has been put in place and has functioned reasonably well, little has been done to set the second-tier policy framework in place. In addition, little has been done to set priorities in terms of investment policy in the economic sectors.

Unfortunately, opening of the economy did not include defining an economic growth strategy for Uganda. Therefore, everything appears as a priority. Poor roads, telecommunications, electricity, access to ports, and a crumbling financial sector all translate into high transaction costs for doing business. This affects not only the commercialization of agriculture but also the development of other sectors. There is a pressing need to begin a serious process to set priorities for these broader issues and for the GOU to set an economic policy framework in place.

Part of the difficulty for developing an economic policy framework and action plan relates to the mix of political objectives in the GOU political process. For example, the GOU stresses a Poverty Alleviation Plan, a Decentralization Plan, a new Land Act, and Food Security, all of which jumble the thinking that goes into attempts to set economic strategies and sound investment choices in place. Political imperatives to ensure that constituencies are served and that the needs of the poorest segments of the population are also served cloud the ability to make sound economic policy.

With opening and liberalization of the economy, Uganda instantly became the new hope for Africa followed by a significant donor response and high levels of donor funding to deal with Uganda's poverty problem. While much of this effort has been justified, it has also created an unintended effect: it spawned many local NGOs and a culture which has become overly donor-dependent, and too often oriented towards a welfare rather than development perspective. For example, giving away seeds, tools, etc, to farmers, when they can be encouraged to pay for their inputs, conflicts with efforts to develop a strong indigenous private sector.

In sum, the economic growth problem for Uganda is a problem of extremely low productivity, and hence, an inability to compete in a liberalized market place. Much of this problem can be associated with the agricultural sector since most of the population is involved in an economy revolving around agriculture. However, the problem of low productivity goes beyond agriculture, and is manifested in manufacturing, services, etc. Low productivity exists, both in the private and public sector. In the private sector, low productivity limits Uganda's ability to compete in a liberalized market-place. Low productivity in the public sector limits the creation of sound economic growth strategies, effective policies, and efficient regulatory structures which enable the private sector to become competitive.

III. The SO1 experience and comparative advantage for responding to Uganda's economic growth problem over the next five years:

Based on the economic problem to be addressed and the SO1 experience to date, the SO1 strategy will encompass two broad strategic outcomes: Agricultural Commercialization and Private Sector Competitiveness. These two outcomes, as well as certain Components, could be used to capture a "Trade and Investment" strategy, or a "Private Sector" strategy, or a "Food Security" strategy, as may be needed. However, the reason for preparing this plan is not to invent "buzz words" but rather to focus on what SO1 really does. Both outcomes are grounded in private sector-led growth and focus on enhancing productivity and competitiveness.

Agricultural Commercialization:

Given the dimension of agriculture productivity problem in Uganda, a significant portion of the SO1 strategy is pinned to agriculture. Furthermore, the approach to enhancing productivity in the agricultural sector is focussed on commercializing agriculture; to make it profitable and to obtain large multiplier impacts. Addressing the agriculture problem should resist temptations to encompass all the political dimensions that are apparent within the GOU. For example, the strategy should focus directly on increasing productivity and not be molded to the multitude of political objectives, which are often encompassed in GOU policies i.e. The Poverty Alleviation Plan, the Land Act, and Decentralization. While it is important to understand these various competing objectives and even to demonstrate realistic results that can be linked to these GOU objectives, SO1 has shown that its comparative advantage lies in its ability to directly address the problem of low productivity and to create solutions. Such solutions are not yet possible by the development authorities in the GOU.

In the agriculture sector, using expertise from projects like IDEA and others, USAID/Uganda has demonstrated straightforward development solutions that show potential for large multiplier effects. USAID/Uganda's ability to bring these solutions, combined with high multiplier impacts, are the essential elements for making change that ultimately influences the overall economy in a significant way. Our experience to-date clearly shows that a hands-on technical assistance approach works. In contrast, our experience also shows that providing operational support to create sustainable institutions is problematic and requires caution. Institutional development as a goal in itself is not only time-consuming but also fraught with problems of accountability, limited institutional funding support from those who benefit, and hence, limited impact.

The problem of low productivity can be seen as low labor, land, and business productivity. In this context, the SO1 agricultural focus addresses skill development, technology infusion, and competitive advantage, both at the farm and firm level and, as well, at the policy level. While in some countries, getting the policies right may be sufficient, it is not sufficient in Uganda.

Components 1a, 1b, and 2, i.e. food crops, non-traditional agricultural exports, and dairy development, are the areas of emphasis for agricultural commercialization.

Private Sector Competitiveness:

Both within the agriculture sector and in other sectors, the problem of low productivity translates into the inability of Uganda's private sector to compete effectively in a liberalized internal and global marketplace. The lack of competitiveness of the private sector looms as the key weakness for driving the future of Uganda's economy. Thus, the SO1 strategy is focussed on key issues that constrain the private sector from becoming competitive. The issues are not necessarily sector specific, but rather reflect priority constraints affecting private sector development, particularly the need to expand the number of efficient small and medium-scale businesses. While there are many possible interventions to consider, three areas are critical and within our strategic and manageable interest. These are financial sector reform, small business development, and second-tier policy reform. As with agriculture, SO1 already has significant experience with ongoing projects in these three areas. Addressing these areas will not only bring a strong complement to the agricultural focus but also stimulate a broader private sector response to the economic growth equation. Here again, we have demonstrated results through hands-on technical assistance programs. The PRESTO project, for example, has created large multiplier impacts with the microfinance and business development programs.

Components 3, 4,and 5, i.e. financial services, business development, and policy reform, are the main areas of emphasis for private sector competitiveness.

SO1 Comparative Advantage:

Compared to other donors, USAID/Uganda has a strong comparative advantage in providing technical assistance and training programs that are private sector driven, and are oriented to practical solutions. This includes a strong technical assistance presence on the ground through our contractors and grantees. No other donor does what USAID/Uganda does in Uganda: Other donors support public sector programs and the more traditional approach e.g. public sector research and extension programs, government soft loans for integrated rural development, and budget support for line Ministries.

Technical assistance and training, at the farm, enterprise level, and policy level, are within the management interest and ability of SO1 to implement. However, with the exception of the MFIs and a few other key institutions, direct support for institutional development should be done very cautiously. To the extent possible, support for institutional development should be limited primarily to providing technical assistance, and not operational support, unless there are very strong compelling reasons for doing so. Technical assistance providers should represent known entities, e.g. contractors and other NGO's who can provide market-driven, private sector skills, and have a proven track record in providing such assistance.

Given that we already have a strong program at the farm and firm level particularly through the IDEA and PRESTO projects, SO1 is well-positioned to give more emphasis to a policy reform agenda that is private sector-driven. More specifically, our experience to date with IDEA and PRESTO provide a strong base upon which to take a more aggressive approach on a number of second-tier legal and regulatory policy reform issues. Taking a more aggressive approach on second-tier policy reform in areas that promote export and trade, financial services, private sector development, will augment our ongoing efforts at the farm and firm-level in agriculture and business development.

IV. SO1 Strategic Implementation plan:

In selecting interventions to address the strategy, the SO1 portfolio has already been adjusted significantly over the last year, as noted in Annex I. The strategy that has emerged, based on our analysis and experience, identifies five primary Components, (possibly adding two new Intermediate Results to the SOAG). The SO1 interventions for addressing these components, the relative strengths and weaknesses of the interventions, and the key issues for achieving impact are discussed below for each Component. Overall, the strategic approach is to catalyze the private sector to increase productivity. Components 1-2 address agriculture commercialization in the food crop and NTAE sub-sectors through a vertically integrated approach involving production, inputs, and markets. Components 3-5 address financial sector services, small business development, and second-tier policy reform, respectively. Strategically, the first two components are now well-focussed, while the remaining three elements need further analyses and will require strategic decisions over the next six months, in order to chart the best possible course for deciding on future implementation interventions.

1. Agricultural Commercialization:
    a. Food Crops production
    b. Non Traditional Agricultural Exports (NTAE)
2. Dairy Development
3. Sound Financial Services
4. Micro and Small Business Development
5. Policy Reform for Private Sector Growth

1. Component One-Agriculture Commercialization: The major constraint facing agriculture in Uganda is low productivity. The extremely low use of modern technology and lack of efficient business acumen limit commercialization of agriculture. The sector must, not only increase productivity but also, continue to diversify into other areas such as non-traditional agriculture exports in order to realize the full impact of an agricultural transformation process that will have lasting impact. Food security is still an important issue because there are still too many Ugandans who suffer from low income and have the resources neither to produce sufficient food nor to purchase food. However, food security is a problem of increasing incomes and, therefore, a problem of profitable enterprise. Building a strong export base is important because it provides foreign exchange and expanded trade and greater investment. The core SO1 intervention for achieving results for this Component is the IDEA project, better known as the Agribusiness Development Center (ADC). SO1 will focus and concentrate strategic direction and technical expertise for increasing agricultural productivity from the ADC.

1.a. Food Crop Production: Increasing food crop production is important from a food security perspective. In addition, since millions of Ugandans grow food crops throughout the country, increasing food crop productivity will generate a large multiplier effect for increasing rural household incomes. Our current program shows that yields of most food crops can be increased two to three times over current levels through proper use of even modest levels of fertilizer, improved seed varieties, postharvest technology, and better agronomic practices. Considerable momentum has been achieved over the last two years and the level of effort, which involves 4,000 demonstrations in many districts, needs to be maintained. In addition, the current emphasis on improving marketing and quality of food crop products needs to continue, so that farmers become competitive in local and regional markets. The ultimate result of these interventions is increased household incomes of the many households involved in food crop production. Increased income will allow a higher proportion of disposable income that can be used for other productive investments, e.g. technology, education, agribusiness, and health care. Currently, the SO1 food crop focus includes primary crops of maize, beans, oilseed, cassava, as well as a few other crops. The impact of the food crop focus is one of increased food security, increasing incomes, and a competitive agricultural workforce. Ugandan rural households, traders, and exporters will become efficient entrepreneurs; able to make good decisions regarding how to invest in technology to earn profits, and able to respond to changing market signals to become efficient producers of competitive products in an ever-changing market place.

The IDEA/ADC is the primary technical assistance hub for achieving results for the food crop component. SO1 has also adjusted the portfolio over the last year so that the Title II programs; i.e. ACDI/VOCA, AfriCare, TechnoServe, and World Vision are spokes of the ADC hub. The ADC hub ensures that consistent advice is given on use of inputs, market development, and policy issues. The integration of the client base for IDEA and Title II programs now gives SO1 a client base with sufficient critical mass (about 250,000 households) to make a significant impact. SO1 is also placing the Postharvest Technology and VOCA Volunteer activities into the food crop component. The VOCA program provides a unique technical assistance package that complements the food crop program. The Postharvest Technology activity feeds technology to other partners dealing with food crops. In addition, FEWS provides an essential monitoring service linked to the food crop program, particularly as it relates to weather, markets, and famine early warning.

The main actions to complete within the next six months to complete the consolidation for the Food Crop Component are: 1) Action Memo describing the reorientation of final year for the Postharvest Technology program, (so that it is a technology transfer agent linked to the ADC), and extend the Cooperative Agreement with Mississippi State through June 20, 2000. This will require about $300,000 additional funding,, 2) Action Memo describing desired results for Phase Two of the Chemonics contract (52 months), request proposal from Chemonics, negotiate and finalize new contract by December, 1999 in order to ensure continuity from current contract to new contract, 3) Finalize adjustments on Title II programs i.e. new World Vision DAP, and redesign ACDI/VOCA DAP based on close-out of COOP Bank, 4) coordinate and leverage the Japanese fertilizer import program, possibly linking their proposed auction of fertilizer with ACDI/VOCA and leverage funding for policy analyses on fertilizer imports, and 5) complete ongoing work to amend all IEEs of SO1 partners regarding the use of pesticides.

Implementation Instruments (Activities):

- CORE: IDEA/ADC- Current contract ends February, 2,000. Contract extension to 2004.
- CORE: Title II programs- TechnoServe, ACDI/VOCA, AfriCare, World Vision.
- CORE: Post Harvest Technology- Cooperative Agreement extension to June, 2000.
- SUPPORTING: VOCA Volunteers- Cooperative Agreement in place through 2002.
- SUPPORTING: FEWS- ongoing funded by USAID/W.

1.b. Diversification into Non-Traditional Agricultural Exports (NTAE): There are two critical reasons for diversifying the agricultural economy with a focus on strong export performance: 1) a strong export base is needed for earning foreign exchange that will promote investment into the economy, and 2) a strong export base will expand the number of employment opportunities, particularly off-farm employment. To achieve these outcomes, the NTAE sector must address: competitive skills at the producer and firm level, quality enhancement and control of export products for the international markets, market efficiencies and industry-level volumes that are competitive. While Uganda currently enjoys a comparative advantage for a number of products, such as cut flowers, fresh fruit and vegetables, vanilla, and cocoa, the global market place is dynamic and Ugandan producers will need to be able to adjust changing market signals. Thus, the practical firm level technical assistance program that SO1 has in place through the IDEA project is focussed on market signals with backward linkages to developing producer and business skills, and expanding volumes of NTAE commodities in order to gain competitive advantage. The IDEA project uses an integrated commodity system approach, which works well. The aim is to build the number of producers and agribusiness firms to a level where sufficient critical mass can represent industry-level competitive positions in the international market-place. Currently, cut flower operations have evolved to the point that the twenty some firms now represent a small industry, whereas, other commodity programs, such as vanilla and fresh fruit, are still in the infant stage. Uganda has great potential in the NTAE sector. USAID can take full credit for developing the NTAE sector based on our investment over the last five years. A long-term effort needs to be maintained.

The IDEA/ADC is the primary implementing partner for the NTAE focus, providing the bulk of all technical assistance and developmental work for NTAE. The VOCA Volunteer activity provides complementary technical assistance for special needs and the FEWS activity provides a complement in terms of market information. The Postharvest activity also complements the ADC NTAE focus, and this will be further strengthened during the next year (the Postharvest Technology activity will be integrated directly into the ADC hub by August 1999). The IDEA project has had a separate grant element managed by SO1 providing direct operational assistance to associations involved in NTAE development. Many of these grants have been closed out. Some grants, such as with the African Project Development Facility has proven especially useful, while others have not worked as well. While the grant element linked to the IDEA project is important, grants have also been difficult for the Mission to manage. Phase Two of the institutional contract with Chemonics will provide a mechanism that permits the institutional contractor to fund and manage all grants.

The main action required to complete consolidation of this Component is to exercise the pre-negotiated option with Chemonics for an additional 52 months.

Implementation Instruments (Activities):

- CORE: IDEA/ADC- Contract ends February 2,000. Institutional contract to be extended to 2004 along with capacity of contractor to manage about 12 grants.

- SUPPORTING: Postharvest Technology - Cooperative Agreement ends June 1999. Cooperative Agreement extension to June 2000.
- SUPPORTING: VOCA Volunteers - Cooperative Agreement in place to September, 2002.

2. Component Two-Increasing Productivity in the Dairy Sector: The Uganda dairy sector was decimated during the conflict years. Milk production and milk consumption became so low that it affected the nutrition and well-being of much of the Ugandan population. In addition to the food security and nutrition benefits, the dairy sector has high potential for increased productivity and commercialization. A regional $2.2 million Dairy Development Directive, funded by USAID/W and implemented by Land O'Lakes (LOL), was put in place during the 1994-1997. This program began a revitalization of the dairy sector and provided the basis for putting a new Mission funded program in place in 1998. In 1998, Heifer Project International (HPI) was finishing a previous program in Uganda working in the dairy sector, but oriented with demobilized soldiers to reintegrate them into the rural economy. In late 1998, SO1 decided to formulate one effort, building on past LOL and HPI programs, aimed at dairy sector development focussed on constraints of low productivity, including the lack of organized marketing and production technology. This resulted in two three-year grants each to Land O'Lakes ($1.5 million) and Heifer Project International ($1.3 million) for the period December 1998 to September 2001. The program is designed to promote strong collaboration between the two implementing organizations. SO1 required both Land O'Lakes and Heifer Project International to ensure maximum commercial impact by working with commercial partners in the U.S. Thus, Heifer Project International is formally linked to American Breeders Service and Land O'Lakes is linked to WorldWide Sires, both of whom provide strong U.S. based, commercial and technology investment elements to the dairy development Component. The VOCA Volunteer activity also provides complementary technical assistance. This Component is now in place and functioning well. No main actions required, except to continue to encourage LOL and HPI to collaborate and report on results in a more integrated manner.

Implementation Instruments (Activities):

- CORE: Land O'Lakes - Three-year grant for $1.5 million from December 1998 to September 2001.
- CORE: Heifer Project International - Three-year grant for $1.37 million from December 1998 to September 2001.
- SUPPORTING: VOCA Volunteers - Cooperative Agreement in place through September 2002.

3. Component Three-Sound Financial Services: Sound financial services are critical to both our agricultural focus and to our business development focus. For the agricultural sector, financial services are critical for farm credit needs, agribusiness development, and export development. Financial services need to be within reach of the rural population. This includes both production credit needs of small and larger farmers, and supplier credit needs of small and medium agribusiness firms and exporters. For non-agricultural businesses, financial services are similar in many ways to that of agriculture enterprises. Most small businesses are located in or near the major towns and cities and can be served by rural commercial bank branch networks, to the extent they exist, but rural farmers often lack access, even to rural bank branches.

With the collapse of the Cooperative Bank, currently the only commercial bank available to service the rural agricultural sector is the Centenary Bank. However, the Centenary Bank is still quite young and has only a limited branch network. If other commercial banks, including Centenary, take on some of the previous Cooperative Bank branch network, then it may be possible to reestablish a banking and credit system that serves farmers and agribusiness. By end of July 1999, the outcome of current efforts by the BOU to allow other commercial banks to purchase COOP Bank branches should be known.

The pervasive problem of agriculture credit relates to the inherent risk in agriculture and the limited knowledge of commercial banks regarding agricultural lending. Production credit schemes, crop finance and crop insurance, savings and deposit accounts, term lending and microfinance are all possible means that have been tried in one form or another on behalf of farmers. However, for the most part, none of these has proven to be very effective for agricultural clients, particularly farmers. Some innovative approaches are being developed by the IDEA and ACDI/VOCA Title II program regarding risk guarantee funds for production credit and the “ATTAIN” model for supplier credit to input suppliers. These approaches are currently being tested in collaboration with the Centenary Bank.

Aside from the agricultural credit services that are required in the rural areas, the microfinance approach using Microfinance Institutions (MFI) has found a strong niche in Uganda. The microfinance industry has grown rapidly in the last three years, due primarily to USAID’s leadership and direction. While microfinance methodology provides useful financial services based on group lending, it provides limited services for directly servicing the agricultural credit problem of farmers. MFIs have been particularly useful in urban settings where group-lending methodology can be applied. Microfinance is an important first step in Uganda for setting in place a bottom-up “banking culture” that can serve a large segment of the poorer population. Thus far, USAID has provided grants to six microfinance institutions and has created the Center for Microfinance (CMF) under the PRESTO project. The Center for Microfinance provides training and guidance not only to the six (as of July 1999) MFIs that USAID has provided grants to, but also provides training to nearly 60 other MFIs operating in Uganda.

SO1 recently signed an agreement with the BOU to initiate an export finance facility. The program will work with commercial banks to provide short-term finance to exporters, primarily in the NTAE sector, to stimulate greater exports. The program will work in partnership with the IDEA NTAE clients. The export finance program will operate as a guarantee, with regulated banking procedures governed by the BOU. If successful, the fund can operate indefinitely without further capitalization.

Three strategic issues need to be addressed regarding the future direction that SO1 should take in the financial sector: microfinance, agricultural credit, and small business credit.

First, and most urgent, is to define the way forward on microfinance development in Uganda. The issue must be examined in light of where we are with PRESTO. Currently, the PRESTO microfinance component ends in February 2001. However, USAID has thus far provided six direct grants to MFIs, i.e. outside of the MSI contract. Twelve to fourteen grants to MFIs are pending and USAID has stated that all future grants must terminate before the end of the MSI contract in 18 months. Thus, SO1 needs to define our future involvement in microfinance soon because we will lose momentum if we do not initiate a new instrument before the end of the PRESTO/MSI project. SO1 cannot extend the MSI contract. Any future management contract will need to be re-competed.

The future of our microfinance efforts needs to take into account the leadership role that USAID has provided in developing the MFI industry, as well as, to examine what course the industry should take. Our experience with PRESTO clearly shows that microfinance works in Uganda. Through our leadership, other donors are now providing assistance to the industry, and most programs are following best practices linked to USAID leadership. The major issue now is to examine issues of supervision (the BOU is pressing for new legislation to supervise and regulate the MFI industry) and the question of meeting demand in the most effective manner. Regulation must be balanced with the ability of MFI institutions to deliver various products, ensure sustainability, and meet the needs of the population. Related to this question is how many MFI institutions should be encouraged to operate in Uganda. Some would argue that many MFIs should be encouraged to operate (with donor assistance) in order to meet demand and saturate the country with microfinance services, without worrying too much about regulation. Others would argue that fewer MFI institutions would permit greater supervision and ensure greater financial sustainability, and use of best practices. Larger MFIs, such as FINCA, FOCCAS, and PRIDE, for example, are positioned well to deal with both sides of this issue, but smaller institutions are not.

The PRESTO-funded Center for Microfinance (CMF) could play a critical role in shaping the future strategic direction of the MFI industry. However, if the CMF is to play this role, specific institutional questions must be addressed regarding its future. Should it be endowed and/or “Ugandanized”, in order to create a more permanent institutional leadership role for the MFI industry? Other donors are very interested in the Center in terms of their own future microfinance programs. Should USAID continue to promote the CMF and, if so, should we provide funding, post-PRESTO, for a management contract to operate the CMF? Should we encourage a donor led strategy? Should we let another donor take on the CMF? An ad-hoc donor group has met a number of times regarding the CMF, and there are draft proposals regarding the potential for the CMF to become an “Apex” institution for the MFI industry. The CMF could play the role of a Center of Excellence, guiding the industry on policy, technical assistance, and training. This issue too, needs to be examined by USAID soon after the PRESTO evaluation. A concept paper on the future of CMF was recently prepared which will be the basis for further review by other donors, and USAID.

The second strategic issue deals with the needs of agriculture finance. Addressing this issue will need to take into account other donor intentions, resolution by the BOU to reopen the former COOP Bank branches under a new banking framework, and clearing defining the nature of the problem. The nature of the problem is one of how best to deliver appropriate financial products that will meet the needs of the agricultural sector. Many donors have examined this issue but with few good prospects for an innovative approach. Our own experience, through the Title II programs and the IDEA project, have demonstrated a number of useful interventions, such as working directly with agricultural clients and commercial banks like Centenary to create successful loan portfolios. Such interventions could represent a starting point for additional analyses.

The third strategic issue, which also relates to the agriculture and small business sector in general, is whether mid-level financial services i.e. credit needs between microfinance and large loan packages i.e. $5,000-$50,000; represents a serious gap in financial products available to the emerging small business sector. This issue requires a better understanding of the actual demand for such products and, as well, an understanding of risk that commercial banks must manage. SO1 will examine this issue in the context of the recently signed export finance facility with the BOU that will work with commercial banks and exporters. The export finance facility addresses the issue of mid-level financial products for exporters.

Implementation Instruments (Activities):

- CORE: PRESTO support to CMF and Microfinance grants through February, 2001.
- CORE: Export Finance using local currency with BOU
- SUPPORTING: IDEA and Title II risk funds for production credit and ATTAIN for input supply.

4. Component Four-Micro and Small Business Development: Expanding the number of microenterprises and small businesses, and at the same time increasing their competitiveness will result in a broad-based, productive workforce that drives the economy in the long run. With the agricultural Components, business skills and even large agribusiness expansion is achieved through this integrated commodity system approach. This approach affects micro and small business, farmers, traders, exporters, and industry. Given the breadth of the agricultural sector, the first three Components of the SO1 strategy make a significant contribution to the business development Component.

Beyond agriculture, there is a strong rationale for improving the broader Ugandan workforce. Increasing business skills and creating a competitive workforce, regardless of a sector-specific focus, will help to expand business opportunities and create the engine required for driving broad-based economic growth. In this context, the PRESTO project has focussed on several interventions to improve business competitiveness. PRESTO has assisted larger business associations, such as the Uganda Manufactures Association, the Ugandan Chamber of Commerce, and several others. In addition, PRESTO has provided small cost-sharing grants to micro and small businesses aimed at improving business planning and market development. Microenterprises are also assisted indirectly through the microfinance program under PRESTO.

Efforts to improve business associations have met with mixed success. The most notable success has been with associations such as the Ugandan Manufactures Association because it is already a well established organization with sufficient membership and accountability to take advantage of the PRESTO assistance. The PRESTO business association element under the institutional contract terminated February 1998. The PRESTO evaluation will be completed July 1999, and will provide analysis regarding the impact of our interventions on business development.

The Global Bureau/EGAD provides funding for one technical specialist based in the UIA under the auspices of the Global Technology Network. The GTN is designed to forge links and joint ventures between the Ugandan and U.S. business community. This has been ongoing for one year and has resulted in one joint venture and several more in progress. It also provides a mechanism for exposing Ugandan businesses to modern technology and U.S. business expertise, and therefore helps to improve Ugandan business skills and generates employment based on actual joint ventures.

Once the PRESTO evaluation is completed, SO1 will evaluate the Small Business Development Component of the strategy and decide what future assistance is warranted and what impact can be expected. The MSI contract under PRESTO ends February 2001; however, the business development element has already closed out. SO1 cannot extend the MSI contract, therefore, any post-PRESTO activities will need to be re-competed. Designing possible new interventions for this Component should be undertaken immediately upon completion of the PRESTO evaluation. Design issues need to consider several strategic issues. For example, while business development is integral to our overall strategy, such assistance needs to be evaluated against other constraints that currently limit private sector development, such as: the lack of a sound financial system; the lack of a transparent and efficient policy framework for the private sector; and limited opportunities in sectors other than agriculture. The policy environment on behalf of the private sector represents a major obstacle affecting business development. For example, the inability to enforce contracts impedes business development, particularly those in the formal sector of small and medium size. On the other hand, microenterprise development takes place primarily in the informal sector and as such, may not be as constrained by the lack of an enabling environment. In this regard, there is growing interest and potential to consider assisting the microenterprise sector improve on quality product lines that could be marketed internationally e.g. handicrafts, etc. Likewise, eco-tourism represents a growing area of interest and potential for Uganda.

The main actions over the next six months are: complete the evaluation of the PRESTO project, July, 1999; and based on the evaluation, design efforts should be carried out to determine what kind of follow-on program should be considered by SO1. Analyses and design for new business interventions should also take in to account the policy and regulatory constraints that limit business expansion. A follow-on program that links both business development and policy reform might be considered.

An additional consideration for follow-on interventions in small business development should include utilizing the Private Sector Foundation (PSF) as the principal Ugandan counterpart and implementing unit. The Private Sector Foundation is the outcome of previous USAID support to the National Forum, which was an ad hoc compilation of private sector associations interacting with government. The PSF, therefore, now represents a more structured apex entity for focussing future efforts, both for business development as well as for policy reform.

Implementation Instruments (Activities):

- CORE: PRESTO-MSI contract ends February 2001. Business element already closed out.
- CORE: IDEA/ADC- Chemonics contract and grant element through 2004
- SUPPORTING: Postharvest Technology through June 2000
- SUPPORTING: Title II Cooperating Sponsors
- SUPPORTING: VOCA Volunteers through 2002
- SUPPORTING: Land O'Lakes
- SUPPORTING: Global Technology Network with UIA

5. Component Five- Policy reform for the private sector: While a great deal has been done to put the macro-economic policy framework in place, very little has been done to streamline the bureaucratic machinery, or to put a legal and regulatory framework in place that is user friendly for the private sector i.e. second-tier policy reform. Part of the difficulty has been the historical lack of political will. However, it now appears that the government is much more keen to address these issues, partly due to pressure form donors during the last Consultative Group meetings in December, 1998. In addition, the 1999 GOU budget supports a number of priorities on behalf of private sector development, including export expansion and streamlining government services. Also, the Ministry of Finance (Keith Muhakanizi) is working on a policy agenda "Government Medium Term Policy Agenda for Enhancing Private Sector Investment and Development", which is an attempt to identify and prioritize the policy reform process that must be undertaken.

One major difficulty in moving more aggressively on second-tier policy reform is the enormous agenda that must be addressed, and the inability of the GOU to set priorities against this agenda. The inability to set priorities is a function of the extremely low capacity of the public sector (very few well-trained technocrats), to undertake the analyses that must be done. To make matters more difficult, the problem of reforming second-tier policies must be done in a way that necessitates being able to cut across ministerial boundaries and deal with vested interests within the public and private sector. For example, the vested interests of traditional manufacturing often conflicts with that of exporters. This comes into play when dealing with trade policy in that at least five different Ministries and at least 20 different private sector associations must reach consensus on trade policy issues before an effective reform process can move forward with government and the parliament.

The government has a number of national level policy directives such as Poverty Alleviation, Decentralization, Privatization, Agricultural Modernization, Integrated Framework for Trade, and so on. However, none of these policy directives really address the need for setting priorities nor for addressing the overarching need for a national economic growth strategy. Current policy directives represent a mixture of political and economic objectives rather than a clear economic strategy that sets priorities for second-tier policy reform in a systematic manner. Consequently, everything appears important, and as long as donors are willing to keep funding a multitude of programs, there is little reason to expect any change in the way priorities are set or not set.

For the SO1 program, a number of policy areas are important. Specifically, sector policy that improves the enabling environment would help to direct investment to solve key infrastructure problems on behalf of the private sector involved in agriculture and business, more generally, would provide greater potential for SO1 investments now in place. Such issues as fertilizer import schemes, crop protection chemical regulations, import duties, tax incentives, export policy, quality assurance, cross-border tariff structures, are important to agricultural diversification and expanding the export base. Likewise, business development in general requires a user-friendly set of government services that promotes and facilitates both domestic and foreign investment, and transparent business transactions.

Ongoing programs in the SO1 portfolio, particularly the IDEA and PRESTO projects, have addressed a number of discrete policy and regulatory issues. However, SO1 does not have a systematic program intervention that deals with policy/regulatory reform in a comprehensive way. This has not presented a serious weakness, at least to date, because the SO1development focus has involved primarily a bottom-up approach at the farm and firm level and the macro-policy environment has been reasonably conducive. Nevertheless, as our programs continue to grow, the need for greater attention to policy will need to be considered.

PRESTO achievements on policy are noteworthy, however, these interventions have tended to represent targets of opportunity rather than a systematic approach to policy reform. Moreover, given the enormity of the overall needs for reform, PRESTO achievements represent the tip of the iceberg. A number of interventions by PRESTO on policy reform also represent institutional development efforts, i.e. operational support to the respective organizations in order to achieve the desired result. For example, PRESTO has supported the development of the Credit Reference Bureau (CRB), the Center for Arbitration and Dispute Resolution (CADER), the Uganda Business Information Bureau (UBIB) and the Uganda Investment Authority (UIA) and the Capital Markets Authority (CMA). While all of these efforts have provided useful improvements in the policy environment, there are institutional sustainability issues that need to be carefully examined if such support is going to continue in the future. In the case of UIA, SO1 intends to phase out operational assistance with a final tranche of funding in 1999.

SO1 submitted a proposal to AFR bureau for ATRIP funding for 1999 funding. This proposal was an attempt to initiate a more aggressive policy reform program for the SO1 strategy. The proposal contained three elements: Competitiveness; Trade facilitation related to WTO and regional trade agreements; and Commercial law and legal sector reform. Unfortunately, the AFR bureau only approved funding ($530,000) for the first year to be devoted to Trade facilitation. SO1 is finalizing the SOW for a G bureau buy-in to implement this element, and the activity should begin by August 1999.

The PRESTO evaluation will address not only what has been accomplished under the project with respect to policy reform, but also provide recommendations regarding future priorities. One strategic issue for the future is whether SO1 should continue to direct policy reform at selected organizations such as UIA, CMA, CADER, etc. A second strategic issue is whether the problem of a weak enabling environment should be addressed more aggressively and systematically. SO1 believes the answer to latter question is, yes! Moreover, without a more systematic reform effort, not only by USAID but also by other donors, the full potential impact of our current investments in agricultural commercialization, business expansion, and financial sector services will be limited.

As a way forward, SO1 will carefully examine the recommendations from the PRESTO evaluation followed by a more in-depth analysis of the issues, as may be needed. In addition, the Competitiveness analysis, which SO1 initiated in Uganda in early 1998, should be resurrected. The "Competitiveness" approach could have significant impact if it is organized conducted properly and the Ugandan private and public sector take ownership of the process and outcomes. The overarching goal of the Competitiveness work should be to define an economic growth strategy for Uganda, by focussing on key productive clusters such as manufacturing, tourism, NTAE, possibly coffee, services, etc. The competitiveness approach will require an enormous amount of work and commitment, including setting up a process that involves a broad set of private sector associations, many ministries, and Parliament. The effort should focus on issues of competitive advantage in productive sectors (clusters), define growth strategies and the related second-tier policy reform issues that need to be put in place, and set investment priorities needed in each cluster. The "competitiveness model" could easily encompass a two-year timeframe and represent a significant investment in time and funding. So far, it has been difficult to get the government and private sector to come together in a meaningful way to get the process started. The difficulty is that the competitiveness model requires a broad consensus, i.e. across ministries, private sector associations, and a core group of senior individuals on the Ugandan side with sufficient leadership to "champion" the process and carry it forward. One way to start the process, would be to build on the model that will get underway with the ATRIP trade activity. The ATRIP trade reform activity will involve working with the PSF to set up a consultative process (called conveyor belts) that will solicit the views of the private sector, involving over 20 associations. The PSF, acting as the umbrellas association, will be the focal point for moving the priority trade policy issues forward for ministerial and/or ministerial action. The PSF will be organizing a number of private sector committees such as, agriculture, manufacturing, services, tourism, etc. which could also be the basis for “clusters” as proposed under the competitiveness model. In any case, to move the competitiveness exercise forward, high level commitment by the government and by other donors will be necessary in order to realize a useful set of products.

Implementation Instruments (Activities):

- CORE: PRESTO policy element through February 2000.
- SUPPORTING: IDEA during Phase Two , 2004.
- CORE: ATRIP trade policy funded only for one year with possible second year.
- CORE: Competitiveness plan for start-up late 1999.

Attachment C: Financial Services Grantee Profiles

1. BUNYORO CATHOLIC DEVELOPMENT FUND (BCDF)
BCDF is owned by Hoima Catholic Diocese and Catholic Relief Services (CRS), a US based NGO. The precursor to BCDF was the Hoima Village Banking Program (HVBP) a CRS program under which loans were disbursed to poor people in Kibaale, Hoima and Masindi districts. HVBP's was understaffed, lacked close monitoring and had a poor methodology. In 1997, CRS and the Hoima Catholic Diocese reorganized HVBP and in 1999 HVBP was transformed into BCDF and registered as a separated entity from CRS. On 11/99/99, USAID awarded BCDF a $229,506 grant to increase outreach in the districts of Hoima, Masindi, and Kibaale.

BCDF baseline statistics on 10/29/99 were; 3,925 active borrowers and new savers, 4.9% portfolio at risk, 62.8% OPP and 52.6% FSS. At the end of the grant on 11/30/000, BCDF will reach 8,113 active borrowers and savers, have a portfolio at risk of 5.2%, 67.7% OPP and 55.4% FSS.

2. CENTENARY RURAL DEVELOPMENT BANK (CERUDEB)
CERUDEB is a commercial bank with nine branches in Kampala, Masaka, Kyotera, Mityana, Mbarara, Kabale, Hoima, Arua, Lira and Namirembe road in Kampala. Approximately 73% of its deposits and 71% of its loans are outside Kampala. CERUDEB targets a higher income group than do NGO microfinance institutions in Uganda whose loans are typically less than $500. CERUDEB uses a direct lending methodology to micro and small businesses and has reached over 5,911 small borrowers with an average loan size disbursed of $1,000 (Ushs. 1.5 million). CERUDEB clients have the lowest average loan size among formal sector banks in Uganda and are unable to access loans availed by other commercial banks. CERUDEB's minimum deposit requirement is $8 (Ushs. 12,000)[1]. The bank has carved out a niche that no other formal financial institution serves.

On 03/16/99, USAID awarded CERUDEB a $400,000 grant to conduct a public awareness campaign and mobilize deposits that the Bank would implement over a 30-month period (6 months for a general public awareness campaign and 24 months to mobilize deposits). At the end of the grant on 11/30/00, at least 93,000 new rural savers will gain access to savings services and grow the deposit base of CERUDEB by more than $18,000 (Ugshs. 19 million). CERUDEB baseline statistics on 03/16/99 were; USh19 million in deposits and 93,025 depositors. At the end of the grant on 11/30/000, CERUDEB will increase deposits to Ushs. 38.5 million, and reach 133,956 depositors.

3. DEVELOPMENT FINANCE COMPANY OF UGANDA (DFCU)
DFCU is a development finance company with four major international shareholders: Commonwealth Development Corporation (CDC), Uganda Development Corporation (UDC), Deutsche Investitions und Entwicklungsggesellschaft GmbH (DEG), and International Finance Corporation (IFC). DFCU has existed since 1964, and has provided loan and equity capital to a number of enterprises. After a period of dormancy in the 1980s, DFCU was revived in 1991 and has made a total of 19

[1] Exchange rate used is $1 – 1,500

equity investments, and has a current loan portfolio of over 50 credits that it manages. From 1994 – 1997, DFCU managed an investment grant provided by USAID of $8.9 million, which it used to make 14 venture capital agribusiness investments and fund a portion of its operating expenses.

On 03/1/99, USAID awarded DFCU a $300,000 grant for an equity investment of Convertible Ordinary/Preference Shares in Centenary Rural Development (CERUDEB) Bank. DFCU's equity investment increased CERUDEB's share capital by approximately 17% to 2.3billion/= and enabled CERUDEB pursue expansion plans to Jinja, Soroti and Kasese increasing the bank's rural outreach, and providing a DFCU Board member to ensure sound financial direction.

The cost of each branch is expected to be $123,077. DFCU will contribute $120,000 out of anticipated dividends of $60,000 declared in 1999 and paid in 2000, and $60,000 declared in 2000 and paid in 2001. These dividends will be used for partial payment of overhead of $1,153,846 (excluding depreciation), for defraying any losses incurred on the loan portfolio and for the possible payment of dividends to its shareholders (if there is a surplus). The total cost of the investment is $428,000, and DFCU's contribution of $128,000 is approximately 30%.

4. FAULU UGANDA

FAULU Uganda was established in 1995 and began operations in 1996.
On 10/29/99, USAID awarded CERUDEB a $500,000 grant to strengthen and expand the scope of its services in Kampala, Mpigi and Mukono. FAULU will increase from 5,380 clients to 7,470 and OSS and FSS will increase from 45.9% to 64% and 41.3% to 60% respectively. FAULU's portfolio at risk will be maintained at less than 3% over the life of the grant.

5. FEED THE CHILDREN (FTCU)

FTCU is an affiliate of Feed The Children International (FTCI), a private, non-profit organization founded in 1978 and registered in Uganda in 1991. FTCU registered as an NGO and company limited by guarantee. FTCU's microfinance program started in 1994 with an individual loans program whose performance was sub-par, which led to a switch in methodology to village banking, now called community banking.

On 10/29/99, USAID awarded FTCU a $451,280 to increase outreach in Mukono and Mpigi, open branches in Rukungiri, Ntungamo and Bushenyi, meet operational costs and acquire fixed assets. FTCU baseline statistics on 10/29/99 were; 4,465 active borrowers and new savers, 2.0% portfolio at risk, 145.6% OPP and 120.4% FSS. At the end of the grant on 11/30/000, FTCU will reach 7,676 active borrowers and savers, achieve 2% portfolio at risk, 146.8% OPP and 123.3% FSS.

6. FOUNDATION FOR CREDIT AND COMMUNITY ASSISTANCE (FOCCAS)

FOCCAS is a robust microenterprise institution implementing a successful *credit with education* program in eastern Uganda. FOCCAS in partnership with Freedom from Hunger (FFH), a U.S. PVO based in Davis, California combines a strategy of poverty lending and low cost non-formal adult education. FFH developed the *credit with education* model in 1989 and has implemented seven such programs successfully worldwide. FFH continues to provide ongoing direction and technical assistance to FOCCAS. FOCCAS established its program office in Mbale in September 1995.

In October 1996, USAID awarded FOCCAS a two-year $50,000 grant under the USAID Washington PRIME fund to build its organizational capacity and expand its lending and training program by establishing 192 Credit Associations with 5,760 new borrowers in Tororo and Mbale districts. By the end of 1997, FOCCAS had reached over 3,400 rural borrowers and savers, established 63 Credit Associations with an average loan size of $51 per borrower and a 1% delinquency rate.

On 09/09/98, USAID awarded a $500,000 grant to FOCCAS to eexpand its *credit with education* to reach a total 18,500 borrowers in Mbale, Tororo, Kapchorwa, Pallisa, Soroti and Kumi, have total outstanding loans of USh2,139,644,000, an average individual loan size of USh115,230 and a loan loss rate less than 0.5% in five years. At the end of the grant in 08/31/99, FOCCAS had established a program management system; local governance structure and distribution channels for *credit with education*. Had 8,444 active borrowers and 8,298 savers with a value of savings of USh109 million.

7. MED-NET

MED-Net is an affiliate of World Vision, a US based NGO. In 1996 World Vision founded MED-Net to create a sustainable microfinance institution which could reach the economically active poor by providing microentreprise credit for business development and by encouraging savings mobilization.

On 10/29/99, USAID awarded MEDNET a grant of $469,394 to strengthen and expand its scope of services offered in the three existing branches of Kampala/Mpigi, Mukono and Masaka, meet operational costs, acquire fixed assets, increase the size of the loan funds, and open a branch in Rakai. MED-NET baseline statistics on 10/29/99 were; 4,136 active borrowers and new savers, 5.7% portfolio at risk, 61.3% OPP and 56.8% FSS. At the end of the grant on 11/30/000, MED-NET will reach 7,894 active borrowers and savers, achieve 7.4% portfolio at risk, 89.8% OPP and 79.5% FSS.

8. UGANDA MICROFINANCE UNION (UMU)

UMU commenced operations in October 1997 following a study by its founders, of microfinance institutions, techniques and practices around the world to test and examine the suitability of solidarity group lending methodology in the Ugandan context. UMU is based in Luwero district. UMU headquarters and one branch are located in Busika and a second branch, opened in April 1999 is located in Kasangati, Mpigi district. UMU has acquired the former Coop bank branch in Kayunga, Mukono.

On 10/08/99 USAID awarded UMU a $491,228 grant to expand its outreach at Busika, Luwero district and Kasangati, Mpigi district, and establish two branches in Zirobwe and Bombo in Luwero District. The award provided loan funds, operating costs, and fixed assets to achieve UMU’s planned levels of outreach and efficiency.

UMU baseline statistics on 10/08/99 were; 2,738 active borrowers and new savers, 1% portfolio at risk, 54.9% OPP and 108.9% FSS. At the end of the grant on

11/30/000, UMU will reach 8,026 active borrowers and savers, achieve 1% portfolio at risk, 108.9% OPP and 95.4% FSS.

9. UGANDA WOMEN'S EFFORT TO SAVE ORPHANS (UWESO)

Uganda's First Lady founded UWESO in 1986 to improve the quality of life of needy orphans by empowering local communities to meet the social, moral and economic needs of orphans. UWESO has shifted its emphasis from charitable activities to financial sustainability by supporting its members in micro-enterprise activities. In order to address the support of micro-enterprise activities, UWESO created the UWESO Savings and Credit Scheme (USCS).

UWESO/USCS targets households headed by orphans and women is operational in the five districts of Masaka, Mbarara, Kumi, Soroti and Lira. Over 90 per cent of USCS's clients are women.

On 10/29/99, USAID awarded UWESO a $509,403 grant to consolidate and increase USCS's outreach from 1,536 to 4,900 clients, stabilize their portfolio at risk at 2.9%, OSS from 55.6% to 52%, FSS 46.4%, open branches in Mpigi and Mukono in January 2000, and, two branches in June 2000 in Bushenyi and Mbarara. The UWESO award ends 11/30/2000.

10. VOLUNTEER EFFORTS FOR DEVELOPMENT CONCERNS (VEDCO)

VEDCO founded in 1986 is registered as a company limited by guarantee and as a non-governmental organization. Its goal is to improve rural living conditions by promoting food security, economic activity for increased household income, and improved health. VEDCO's mission is "to promote sustainable economic empowerment of small-holder farmers and microentreprenuer associations through capacity development, agro-market support, fair trade promotion, microfinance and consultancy." Their vision is to %improve the quality of life of rural small-holder farmers and microentrepreneurs through sustainable economic empowerment."

In 1995 VEDCO started a microfinance program, the Rural Credit Finance Scheme (RUCREF), to offer savings and credit services to smallholder farmers and microentrepreneurs. RUCREF operates in the districts of Luwero and Mpigi and offers two major credit products: loans to microenterprises and loans to small farmers for sustainable agriculture production. On 11/01/99, USAID awarded VEDCO a $235,554 grant to transform RUCREF into a sustainable microfinance institution serving a larger clientele than it currently serves. RUCREF will expand to Luwero and Mpigi districts, opening up Semuto, a sub-county in Luwero District, and Gombe, Wakiso, Kakiri, Masulita, and Namayumba, five sub-counties in Mpigi District.

VEDCO baseline statistics on 11/01/99 were; 2,345 active borrowers and new savers, 2% portfolio at risk, 111.5% OPP and 108.9% FSS. At the end of the grant on 11/30/000, UMU will reach 8,026 active borrowers and savers, achieve 1% portfolio at risk, 108.9% OPP and 86.3% FSS.
Over the proposed funding period the number of borrowers and savers will increase from 2,345 to 3,019, OSS will be 147.9% and FSS 115.4%.

SUMMARY

Grantee	Grant Amount	Start Date - End Date
UGAFODE	$ 50,000	11/04/96 – 10/31/98
CERUDEB	$400,000	03/16/99 – 11/30/00
UWFT	$479,467	04/28/99 – 05/31/00
DFCU	$300,000	03/17/99 – 11/30/00
FOCCAS	$500,000	09/10/99 – 08/31/99
UWESO	$509,403	10/29/99 – 11/30/00
UMU	$491,228	10/08/99 – 11/30/00
FTCU	$451,280	10/29/99 – 11/30/00
MEDNET	$469,394	10/29/99 – 11/30/00
VEDCO	$235,554	11/01/99 – 11/30/00
FAULU	$500,000	10/29/99 – 11/30/00
BCDF	$229,506	11/19/99 – 11/30/00